

**DRAFT**

**C –  
Agenda Number # 1940  
4/17/03**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Telecommunications Division  
Public Programs Branch**

**RESOLUTION T-16702  
April 17, 2003**

**R E S O L U T I O N**

RESOLUTION T-16702. APPROVAL OF THE CALIFORNIA HIGH COST FUND-A (CHCF-A) ADMINISTRATIVE COMMITTEE FUND SURCHARGE RATE EFFECTIVE MAY 1, 2003 AND BUDGET FOR JULY 1, 2003 THROUGH JUNE 30, 2004 TO COMPLY WITH THE REQUIREMENTS OF PUBLIC UTILITIES CODE SECTIONS 270-281.

---

**Summary**

On May 9, 2002, the California High Cost Fund - A (CHCF-A) Administrative Committee (AC) <sup>1</sup> filed with the Executive Director of the California Public Utilities Commission its proposed budget for July 1, 2003 through June 30, 2004.

This resolution adopts a revised surcharge rate of 0.21% effective May 1, 2003 for the CHCF-A Administrative Committee Fund<sup>2</sup> until further revised by the Commission and adopts a budget of \$48,894,085 for fiscal year (FY) 2003-04 for the CHCF-A program.

**Background**

The California High Cost Fund (HCF) was implemented by D.88-07-022 as modified by D.91-05-016 and D.91-09-042 to provide a source of supplemental revenues to three mid-size and seventeen small Local Exchange Companies (LECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.

---

<sup>1</sup> Pursuant to Public Utilities Code § 275 (a), the CHCF-A AC functioned as an Advisory Committee, not as an Administrative Committee, after September 30, 2001.

<sup>2</sup> Pursuant to Public Utilities Code § 270 (a) (1), the fund name will be California High Cost Fund A-Administrative Committee Fund.

D.96-10-066 changed the name of HCF to CHCF-A and created the California High Cost Fund-B (CHCF-B). This decision included the three mid-size LECs in the CHCF-B program for the purpose of determining universal service subsidy support and maintained the CHCF-A for the 17 small LECs.

In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). § 270(b) requires that the monies in the CHCF-A and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

On May 9, 2002, the CHCF-A AC submitted a letter request to the Executive Director seeking the approval of the July 1, 2003 to June 30, 2004 budget of \$ 53.794 million and a surcharge rate of 0.27%. This budget request was filed in accordance with Ordering Paragraph 7 of Resolution T-16521. Further, this letter request is consistent with similar requests for other public programs that have submitted FY 2003-04 budgets for Commission consideration.

### **Notice/Protests**

Notice of the AC's budget letter request was published in the Commission Daily Calendar of May 13, 2002.

On June 3, 2002, Cooper, White and Cooper, LLP <sup>3</sup>submitted a response to the CHCF-AC's budget letter request. Cooper, White and Cooper notes that the projected ending balance is \$3.3 million, which is only equivalent to less than one month of projected draws. This is not consistent with the historical administration of the fund where a three months balance was maintained. Since carrier claims are predicted 13 months in advance, there may be significant differences between the anticipated claims and the surcharge revenues to cover those claims. To maintain consistency with the historical norm and to ensure that adequate funds are available to support program operations, Cooper, White and Cooper, requests the revision of the proposed budget to incorporate a three months ending fund balance.

TD acknowledges the minimal reserve being proposed for the FY 2003-04 budget. As with all the other public programs, the ending fund balance is being kept to a minimum.

---

<sup>3</sup> Cooper, White and Cooper sent the response in behalf of Calaveras Telephone Co., Cal-Ore Telephone Co., Ducor Telephone Co., Evans Telephone Co., Foresthill Telephone Co., Happy Valley Telephone Co., Hornitos Telephone Co., Kerman Telephone Co., Pinnacles Telephone Co., Inc., The Ponderosa Telephone Co., Sierra Telephone Co., Inc., The Siskiyou Telephone Co., The Volcano Telephone Co., and Winterhaven Telephone Company.

## Discussion

In this Resolution, the Commission adopts the following:

- The surcharge rate is reduced to 0.21% effective May 1, 2003 until further revised by the Commission from the current rate of 0.36% .
- The CHCF-A program budget for FY 2003-04 in the amount of \$48,894,085.

In Resolution T-16550 dated October 25, 2001, the Commission approved a \$53.078 million FY 2002-03 budget for the CHCF-A and a projected ending fund balance of \$6.046 million. Appendix A shows a comparison between the Commission adopted program budget and the updated budget based on January 31, 2003 actual figures, projections to June 30, 2003, and adjusted billing base of \$19,017,199,000. The updated FY 2002-03 budget also considers the change in the surcharge rate to 0.21% effective May 1, 2003 from the current surcharge rate of 0.36%. The updated budget will result in a projected fund balance of \$14.034 million as of June 30, 2003.

Appendix B shows the FY 2003-04 CHCF-A budget as proposed by the Administrative Committee and the Telecommunications Division. Of the \$48.894 million proposed budget for FY 2003-04, \$37.160 million is for claim payments or monthly support to the small LECs, \$10 million is for Assembly Bill (AB) 140,<sup>4</sup> \$1.200 million for financial, compliance and surcharge remittance audits, \$23,000 for banking fees, \$1,000 for Advisory Committee expenses, \$460,000 for Administrative/Staff Costs, and Inter-agency costs and \$50,000 for other operating and maintenance expenses (SQL programming and maintaining the electronic and monitoring system, staff travel, equipment and other CPUC overhead and administrative costs).

Based on the telecommunications surcharge revenue remittances for the past fiscal year 2001-02 and the forecast of such surcharge revenue remittances for FY 2002-03, the estimated intrastate billings subject to surcharge are revised to \$19,845,588,079 for FY 2003-04. The forecast is based on a 4.35%<sup>5</sup> growth on the FY 2002-03 estimated billing base of \$19,017,199,000 used in Resolution T-16685 dated January 30, 2003.

The current CHCF-A surcharge rate of 0.36% is reduced to 0.21%, effective May 1, 2003 until further revised by the Commission. All certificated telecommunications carriers in California shall apply the surcharge rate of 0.21% on their end-users' bills rendered on or after May 1, 2003.

---

<sup>4</sup> Assembly Bill 140 § 7 adds § 276.5 to the Public Utilities Code ordering the CPUC to establish a grant program for aid in the establishment of telecommunications service in areas not currently served by existing local exchange carriers. The funding level is set not to exceed \$10 million per year.

<sup>5</sup> This growth rate reflects personal income percentage changes for California projected by UCLA Anderson in December 2002 for 2003 and 2004.

An ending fund balance equivalent to approximately two months of forecasted program expenses is proposed for FY 2003-04.

### **Notice to Other Carriers, Advice Letter Filing, and Notice of Availability**

In Resolution T-15558 (dated June 8, 1994), we waived the notice requirements of General Order (G.O.) 96-A, Section III.G.1 to furnish competing utilities either public or private with copies of related tariff sheets. We did so because it did not appear to be in public's interest for each utility to send and receive over two hundred notices advising them of regulatory changes about which they already know. Since that time nothing has happened to change our opinion, so we will waive this notice requirement for tariff changes which comply with this resolution.

Telecommunications utilities that are subject to the CHCF-A surcharge are required to file tariff schedules revising this surcharge for FY 2003-04 in compliance with this resolution and in accordance with the provisions of G.O. 96-A on or before April 25, 2003. These advice letters shall become effective May 1, 2003.

In the past, the Commission has served a hard copy of this resolution on all telecommunications carriers and the parties of record in R01-08-002 and the parties on the service list of A99-09-044. To be consistent with the Commission's commitment to utilize the Internet for distributing Commission orders and information, the Telecommunications Division has informed the telecommunications carriers and the parties of record in R01-08-002 and A99-09-044 on the availability of the draft resolution as well as the conformed resolution, when adopted by the Commission web-site, [www.cpuc.ca.gov](http://www.cpuc.ca.gov).

### **Comments**

In compliance with PU Code § 311 (g), the draft of this Resolution was mailed on March 18, 2003 to the 17 small LECs, the CHCF-AC, the parties of record in R.01-08-002, and A.99-09-044. A copy of the cover letter of this mailing was also sent to each of the Commission certificated telecommunications carriers informing parties that this draft resolution is available at the Commission's website [www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm](http://www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm) and is available for public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

Comments received on a timely basis will be addressed by the Telecommunications Division in this resolution.

## Findings

1. In October 1999, Public Utilities Code (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-A (CHCF-A) Administrative Committee Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. Resolution T-16550 dated October 25, 2001 adopted a Fiscal Year (FY) 2002-03 CHCF-A budget of \$53.078 million and a fund balance as of June 30, 2003 of \$6.046 million.
4. The updated FY 2002-03 CHCF-A budget, as shown in Appendix A, projects expenses to be \$36.079 million and ending fund balance as of June 30, 2003 to be \$14.034 million.
5. The updated FY 2002-03 CHCF-A budget, as set in Appendix A of this resolution, is reasonable and should be adopted.
6. On May 9, 2002, the CHCF-A Administrative Committee (AC) submitted a letter request to the Executive Director seeking the approval of the CHCF-A Fiscal Year (FY) 2003-04 budget of \$ 53.794 million and a surcharge rate of 0.27%.
7. Based on the updated FY 2002-03 projections, the current surcharge rate of 0.36% should be reduced to 0.21%, effective May 1, 2003, until further revised by the Commission.
8. The budget for the CHCF-A for FY 2003-04 of \$48,894,085, as set forth in Appendix B of this resolution, is reasonable and should be adopted.
9. Telecommunications utilities that are subject to the CHCF-A surcharge should file tariff schedules revising this surcharge for FY 2003-04 in compliance with this resolution and in accordance with the provisions of G.O. 96-A on or before April 25, 2003. These advice letters should become effective May 1, 2003.
10. All certificated telecommunications carriers in California should apply this surcharge rate on their end-users' bills rendered on or after May 1, 2003.
11. The draft of this resolution was mailed to the 17 small LECs, the CHCF-AC, and the parties of record in R.01-08-002 and A.99-09-044 on March 18, 2003. A copy of the cover letter of that mailing was also sent to each of the Commission certificated telecommunications carriers advising them of the availability of this draft

resolution and the conformed resolution, when adopted by the Commission on the Commission's web site.

**THEREFORE, IT IS ORDERED that:**

1. The updated CHCF-A Fiscal Year (FY) 2002-03 budget, as shown in Appendix A, of this resolution is adopted.
2. The budget for the California High Cost Fund-A (CHCF-A) for FY 2003-04 of \$48,894,085, as set forth in Appendix B of this resolution, is adopted.
3. The current surcharge rate of 0.36% is reduced to 0.21% effective May 1, 2003 until further revised by the Commission. All certificated telecommunications carriers in California shall apply the surcharge rate of 0.21% on their end-users' bills rendered on or after May 1, 2003.
4. All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by April 25, 2003 revising the CHCF-A surcharge rate to 0.21% to take effect on May 1, 2003. The telecommunications carriers are not required to notice competing utilities for tariff changes that comply with this resolution.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 17, 2003. The following Commissioners approved it:

---

WILLIAM AHERN  
Executive Director

APPENDIX A  
CALIFORNIA HIGH COST FUND A ADMINISTRATIVE COMMITTEE FUND  
ADOPTED VS. UPDATED PROGRAM BUDGET FOR FY 2002-03

	<u>ADOPTED</u> <u>FY 2002-03<sup>1</sup> (Res. T-16550)</u> <u>(Col. A)</u>	<u>UPDATED</u> <u>FY 2002-03<sup>2</sup></u> <u>(Col. B)</u>
<b>FY 02-03 TELECOMMUNICATIONS REVENUE SUBJECT TO SURCHARGES<sup>3</sup></b>	\$15,873,000,000	\$19,017,199,000
<b>SURCHARGE RATES<sup>4</sup></b>		
Jul 1, 2002 through Dec 31, 2002	0.36%	0.360%
Jan 1, 2003 through April 30, 2003	0.36%	0.360%
Effective May 1, 2003 (the goal is to have a one-month reserve at the end of the FY @ Ln 8)	0.36%	0.210%
 1 BEGINNING FUND BALANCE (Per Certification of Year-End 6/30/02 Financial Report) <sup>5</sup>	 \$3,568,692	 \$14,278,443
2 PRIOR PERIOD ADJUSTMENTS		
a 01-02 Revenues Received in 02-03 (per receipts thru 10/30/02)	\$0	\$8,352,918
b 01-02 Expenses paid in September 02 <sup>6</sup>	\$0	(\$777,512)
c 01-02 Outstanding Claims and Expenses (balance of June 2002 payments that needs appropriation authority) <sup>7</sup>	\$0	(\$2,380,422)
3 REVISED BEGINNING FUND BALANCE (sum of Ln 1 and Ln 2)	\$3,568,692	\$19,473,427
4 TRANSFER TO GENERAL FUND <sup>8</sup>	\$0	(\$27,200,000)
5 FUND AVAILABLE FOR FY 02-03 (Sum of Ln 3 and Ln 4)	\$3,568,692	(\$7,726,573)
6 REVENUES		
a Surcharges (per telecommunications revenue on LnA and surcharge rates on Ln B)	\$55,555,500	\$57,569,591
b Investment Income (per monthly projected cash flow) <sup>9</sup>	\$0	\$269,822
c Others	\$0	\$0
d Total 02-03 Revenues (sum of a thru c)	\$55,555,500	\$57,839,413
7 PROGRAM EXPENSES		
a Carrier Claims <sup>10</sup>	\$41,720,350	\$35,884,880
b Interest for Untimely Payment <sup>11</sup>	\$0	\$6,157
c Other Program Services	\$0	\$0
d Other Legislative Mandated Programs	\$10,000,000	\$0
e Administrative Committee-Per Diem <sup>12</sup>	\$3,600	\$1,800
f Administrative Committee-Travel and Others <sup>13</sup>	\$5,000	\$1,050
g Financial Audit	\$10,000	\$0
h Compliance Audit	\$500,000	\$0
i Surcharge Remittance Audit	\$600,000	\$0
j Claim Audit	\$0	\$0
k Banking Fees <sup>14</sup>	\$18,000	\$24,218
l CPUC Staff and Administrative Costs <sup>15</sup>	\$221,000	\$141,000
m Data Processing <sup>16</sup>	\$0	\$20,000
n Total Program Expenses (sum of a thru m)	\$53,077,950	\$36,079,106
8 FUND BALANCE AS OF JUNE 30, 2003 (Ln 5 + Ln 6d - Ln 7n)	\$6,046,242	\$14,033,735

1 Fiscal Year 2002-03 budget was adopted by the Commission in Resolution T-16550 dated October 25, 2001.

2 Based on December 2002 actual data and projected to June 30, 2003.

3 The FY 2002-03 billing base is adjusted to \$19,017,199,000 based on the telecommunications surcharge revenue.

4 Surcharge rate is decreased to 0.21% effective May 1, 2003

5 Fund balance as of 7/1/02 is \$14,278,442.90.

6 Banking fees for April, May and June 2002 in the amount of \$4,277.56 and partial June 2002 CHCF-A monthly support to the carriers were made in October 2002.

7 Balance of June 2002 CHCF-A monthly support to the small LECs including interest from August 1, 2002 through December 31, 2003. Since it is not clear when appropriation authority may be obtained, the additional appropriation authority being requested to enable CHCF-A to make the June 2002 payments is \$2.5 million.

8 The amount to be transferred to the General Fund is in accordance with Chapter 379 Statutes 2002 (2002 Budget Act).

\$27.2 million was transferred to the General Fund in September, November and December 2002.

9 Projected annual interest income is computed at 2% and realized every 6 months.

10 CHCF-A CY 2002 support was adopted by the Commission in Resolution T-16619. CHCF-A support for CY 2003 was adopted by the Commission in Resolution T-16712 for the small LECs except Evans and Sierra. The 2003 CHCF-A support for Sierra is based on \$13,175,500 (based on the draft resolution) and that for Evans is estimated at \$1,700,000 (based on the GRC team's estimate). Also included is a \$2 million interim rate relief for Kerman as ordered in the draft decision of the ALJ in A 02-01-004.

11 Decision 01-09-064 orders the payment of interest based on the 3 month commercial paper rate.

12& 13 Pursuant to D.02-04-059, the per diem and other costs are authorized for one committee member's attendance in the CHCF-A Administrative Committee meeting. However, with the new Committee being constituted only in February 2003, there will only be 2 meetings for FY 2002-03.

14 Starting November 2002, the trust account is converted to a zero based account to comply with State Treasury requirements. A post office fee for the lockbox of \$750 is payable each fiscal year along with lockbox fees.

15 The State budget appropriated only \$141,000 for Admin/Staff Costs.

16 This represents costs for SQL programming and maintaining the electronic filing and monitoring system, staff travel, equipment and other CPUC overhead

**APPENDIX B**  
**CALIFORNIA HIGH COST FUND A ADMINISTRATIVE COMMITTEE FUND**  
**PROGRAM BUDGET FOR FY 2003-04**

		<b><u>PROPOSED</u></b> <b><u>BY ADMIN. COMMITTEE</u></b> <b><u>FY 2003-04 (May 2002)</u></b> <b>(COL. A)</b>	<b><u>PROPOSED</u></b> <b><u>FY 2003-04</u></b> <b>(COL. B)</b>	<b><u>ADOPTED</u></b> <b><u>FY 2003-04</u></b> <b>(COL. C)</b>
<b>FY 03-04 TELECOMMUNICATIONS REVENUE SUBJECT TO SURCHARGES <sup>1</sup></b>		\$20,000,000,000	\$19,845,588,079	\$19,845,588,079
<b>SURCHARGE RATES <sup>2</sup></b>				
<b>Effective May 1, 2003 (the goal is to have a one-month reserve at the end of the FY @ Ln 8)</b>		<b>0.27%</b>	<b>0.21%</b>	<b>0.21%</b>
1	BEGINNING FUND BALANCE (Based on projected FY 2002-03 ending balance) <sup>3</sup>	\$0	\$14,033,735	\$14,033,735
2	PRIOR PERIOD ADJUSTMENTS			
a	02-03 Revenues Received in 03-04	\$0	\$0	\$0
b	02-02 Expenses paid after 6/30/03	\$0	\$0	\$0
c	02-03 Outstanding Claims and Expenses Needing Additional Appropriation Authority	\$0	\$0	\$0
3	REVISED BEGINNING FUND BALANCE (sum of Ln 1 and Ln 2)	\$0	\$14,033,735	\$14,033,735
4	TRANSFER TO GENERAL FUND <sup>7</sup>	\$0	\$0	\$0
5	FUND AVAILABLE FOR FY 03-04 (Sum of Ln 3 and Ln 4)	\$0	\$14,033,735	\$14,033,735
6	REVENUES			
a	Surcharges (per telecommunications revenue on LnA and surcharge rates on Ln B)	\$57,000,000	\$41,675,735	\$41,675,735
b	Investment Income (per monthly projected cash flow) <sup>4</sup>	\$75,933	\$235,638	\$235,638
c	Others	\$0	\$0	\$0
d	Total 03-04 Revenues (sum of a thru c)	\$57,075,933	\$41,911,373	\$41,911,373
7	PROGRAM EXPENSES			
a	Carrier Claims <sup>5</sup>	\$42,019,823	\$37,160,085	\$37,160,085
b	Interest for Untimely Payment	\$0	\$0	\$0
c	Other Program Services	\$0	\$0	\$0
d	Other Legislative Mandated Programs <sup>6</sup>	\$10,000,000	\$10,000,000	\$10,000,000
e	Administrative Committee-Per Diem <sup>7</sup>	\$4,000	\$600	\$600
f	Administrative Committee-Travel and Others <sup>8</sup>	\$6,000	\$400	\$400
g	Administrative Committee-Special Needs Accommodation <sup>9</sup>	\$0	\$0	\$0
h	Financial Audit	\$15,000	\$100,000	\$100,000
i	Compliance Audit	\$500,000	\$500,000	\$500,000
j	Surcharge Remittance Audit	\$600,000	\$600,000	\$600,000
k	Claim Audit	\$0	\$0	\$0
l	Banking Fees <sup>10</sup>	\$23,000	\$23,000	\$23,000
m	CPUC Staff and Administrative Costs <sup>11</sup>	\$564,000	\$460,000	\$460,000
n	Other Operating and Maintenance Expenses <sup>12</sup>	\$62,000	\$50,000	\$50,000
o	Total Program Expenses (sum of a thru m)	\$53,793,823	\$48,894,085	\$48,894,085
6	FUND BALANCE AS OF JUNE 30, 2004 (Ln 5 + Ln 6d - Ln 7n)	\$3,282,111	\$7,051,022	\$7,051,022

1 FY 2003-04 projected billing base is based on the estimated billing base for 2002-03 of \$19,017,199,000 increased by 4.35%.

2 The surcharge rate is set at 0.21% effective May 1, 2003 until revised by the Commission.

3 The CHCF-A Administrative Committee assumes the beginning fund balance to be \$0.00. TD used the projected ending cash balance for FY 2002-03 based on actual January 2003 data and projections through June 30, 2003.

4 Projected annual interest income is computed at 2% realized every 6 months.

5 Claim Payments from July through December 2003 is based on Resolution T-16712 and

January through June 2004 are based on the estimates submitted by the carriers in May 2002.

6 Assembly Bill 140 provides transfer payments to telephone corporations providing service in high cost areas. At this time, only the CHCF-A program will provide funding for this program until certain issues relating to CHCF-B are resolved. AB 140 funding level is not to exceed \$10 million per year.

7 & 8 Pursuant to D.02-04-059, the per diem and other costs are authorized for one committee member's attendance in the CFCF-A Administrative Committee meeting. It is assumed that there will be only one meeting for the year.

9 There are no special needs accommodation for the CHCF-A committee members.

10 The trust account is converted to a zero balance account to comply with State Treasury requirements. Lockbox fee and access fee are estimated at \$18,250 and \$4,000 a year, respectively. A post office fee of \$750 for the lockbox is payable each fiscal year.

11 This includes \$278,000 for interagency cost, \$79,000 for AB 140 staffing and \$ 103,000 for fiscal office staff.

12 This represents costs for SQL programming and maintaining the electronic filing and monitoring system, staff travel, equipment and other CPUC overhead and administrative costs.